

Message Text

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PAGE 01 MANILA 13589 070404Z

14

ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PRS-01

PA-01 SP-02 USIA-06 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

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USADB

PASS TREASURY FOR ERB/ZINMAN

E.O. 11652: ADS,DECLAS: 3/7/77

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB RENTAL SUBSIDY

REF: (A) TREASURY R312035Z AUG. 76, RENTAL SUBSIDY,

(B) MANILA 12626

1. USADB AGREES ADB RENTAL SUBSIDY IS NOT LONG TERM SOLUTION TO PROBLEM CAUSED BY PHILIPPINE CONSTITUTIONAL PROVISION WHICH PROHIBITS INDIVIDUAL FOREIGNERS FROM OWNING LAND. THIS CONTRASTS SHARPLY WITH IBRD AND IDB STAFF MEMBERS WHO CAN OWN LAND AND ENJOY HOM OWNERSHIP AND CAPITAL GAINS. TO COMPENSATE FOR THIS, ADB MANAGEMENT REQUESTED PHILIPPINE GOVERNMENT TO PERMIT ADB TO OWN LAND ON WHICH STAFF HOUSING SCHEMES COULD BE CONSIDERED. ADB WAS GIVEN UNDERSTANDING THAT IF PRESSED NOW, PHILIPPINE GOVERNMENT WOULD RULE THAT ADB CANNOT OWN LAND UNDER HEADQUARTERS AGREEMENT AND WOULD BE REQUIRED TO NEGOTIATE A SUPPLEMENTARY AGREEMENT. ADB'S LEGAL POSITION IS THAT HEAD-
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PAGE 02 MANILA 13589 070404Z

QUARTERS AGREEMENT IS SUFFICIENT TO PERMIT ADB OWNERSHIP

OF LAND. ADB PRESIDENT DOES NOT WISH TO PREJUDICE FUTURE ADB NEGOTIATIONS WITH PHILIPPINE GOVERNMENT NOW BE PRECIPITATING ADVERSE RULING. MEANWHILE, ADB PRESIDENT PROPOSED MODIFICATION OF PRESENT TEMPORARY RENTAL SUBSIDY SCHEME TO ADDRESS SUDDEN IMPACT OF A RAPID INCREASE IN RENTALS. AT SAME TIME ADB IS ALSO STUDING DIFFERENT TYPES OF STAFF HOUSING SCHEMES THAT COULD CIRCUMVENT LAND OWNERSHIP. REF. REF A PARA 7.

2. INCONSEQUENCE, USADB BELIEVES THAT CONTINUATION OF TEMPORARY RENTAL SUBSIDY SCHEME SHOULD BE SUPPORTED BUT WITH MODIFICATION OF MANAGEMENT'S PROPOSAL SO THAT AVERAGE 60 PERCENT SUBSIDY INSTEAD OF PREVIOUS 50 PERCENT BY WHICH RENTAL PAID EXCEEDS 15 TO 30 PERCENT OF SALARY SHOULD BE DIVIDED INTO JUST TWO OR THREE CATEGORIEIS WITH HIGHER PERCENTAGES PAID TO LOWER SALARY CATEGORY WHERE NEED APPEARS GREATER, RATHER THAN COMPLEX FORMULA PROPOSED BY BANK IN ADB DOC. EX/R2-76.

3. RENTAL SUBSIDY APPEARS TO BE BEST LEAST COST TEMPORARY ALTERNATIVE TO GENERAL AND/OR PERMANENT SALARY COMPONENT, PARTICULARLY IF ADB WISHES TO MAINTAIN POSITION ON AND TO CONTINUE TO PURSUE ISSUE OF ADB RIGHT TO LAND OWNERSHIP WITH PHILIPPINE GOVERNMENT TO CONSIDER FUTURE STAFF HOUSING SCHEMES.

4. USADB AGREES MINIMUM 15 PERCENT OF ADB SALARY FOR BEGINNING OF RENTAL SUBSIDY DOES APPEAR LOW AGAINST 21 PERCENT OF GROSS INCOME OF US URBAN WAGE EARNERS FOR SHELTER. HOWEVER, THERE ARE SOME MITIGATING COSTS AND CONDITIONS. SOME OF THESE COSTS AND INCONVENIENCES ARE ADVANCE RENTAL DEPOSIT OF 6 MONTHS TO ONE YEAR, PURCHASE AND INSTALLATION OF HOUSEHOLD EQUIPMENT SUCH AS STOVE, REFRIGERATORS, AIR CONDITIONS, WATER HEATER AND OTHER APPLIANCES AND PART OF HOUSE MAINTENANCE WHICH IS NORMALLY PART OF LANDLORD COSTS IN US. IN ADDITION, US STAFF MEMBERS OF BANK ARE SUBJECT TO US INCOME TAX ABOVE EXEMPTION OF \$20,000 WHICH MAY BE REDUCED TO \$15,000 BEGINNING THIS TAXABLE YEAR FOR THOSE ABROAD FOR MORE THAN 18 MONTHS, OR \$25,000 FOR THOSE ABROAD WITH RESIDENT LIMITED OFFICIAL USE

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PAGE 03 MANILA 13589 070404Z

STATUS FOR THREE YEARS OR MORE.

5. ON BALANCE, USADB SUPPORTS TEMPORARY INCREASE IN PROPORTION OF RENTAL SUBSIDY FROM 50 TO AVERAGE OF 60 PERCENT RENTAL IN EXCESS OF 15 PERCENT AND UP TO 30 PERCENT OF SALARLY BECAUSE OF RAPID INCREASE IN RENTALS OVER PAST YEAR WHICH WERE ABOUT 20 PERCENT OR MORE AND ANTICIPATED INCREASES AS RENT CONTRACTS

ARE RENEGLIATED.

6. USADB AGREES ACCURACY OF PROJECTED BUDGETARY COSTS OF RENTAL SUBSIDY APPEARS QUESTIONABLE. IN AUGUST 1975, STAFF ESTIMATED ANNUAL COST OF \$80,000 BASED ON PROJECTED COST FOR OCTOBER-DECEMBER 1975 PERIOD WHICH PROVED TO BE LOW DUE IN PART TO EXTENSION OF RENTAL SUBSIDY TO DIRECTORS AT LATER DATE. SUBSEQUENT EXPERIENCE AND ESTIMATED COSTS FOR REMAINING CALENDAR 1976 INDICATE \$144,250. SINCE RENTS CONTINUE TO INCREASE AND MORE STAFF MEMBERS MAY BE APPLYING FOR SUBSIDY AS RENT CONTRACTS ARE RENEGOTIATED, STAFF ESTIMATES \$244,750 EXPENDITURE FOR YEAR 1 OCTOBER 1976 TO 30 SEPTEMBER 1977, ASSUMING ACCEPTANCE OF PROPOSED NEW RENTAL SUBSIDY ADMITS ESTIMATES SUBJECT TO WIDE MARGIN OF ERROR DUE TO ASSUMPTIONS AND TO POSSIBLE DIFFERENCE BETWEEN PROJECTED RENTALS AND STAFF PARTICIPATION AND ACTUAL RENTALS AND APPLICATIONS FOR SUBSIDY DURING COURSE OF NEXT YEAR.

7. PERCENTAGE PESO EXCHANGE RATE INCREASES APPEARS TO HAVE BEEN MUCH LESS THAN INCREASES IN RENTALS. HOWEVER, ANY SUBSEQUENT PESO DEPRECIATION WOULD HELP REDUCE IMPACT ON DOLLAR EXPENDITURES FOR RENTALS.

8. REFTTEL PARA. 6. ADB DEPUTY TREASURER EXPLAINED THAT PESOS EXPENDITURE FOR RENTAL SUBSIDY IS ADDED TO MANY OTHER PESO ACCOUNTS PAYABLE. PESO DRAWINGS FROM ADB HOLDINGS IS LIMITED BY DRAWDOWN AGREEMENT TO \$100,000 EQUIVALENT PER MONTH. BEGIN FYI: HOWEVER, AN ESTIMATED ADDITIONAL \$250,000 PER MONTH IN FOREIGN EXCHANGE IS USED TO COVER REMAINING PESO EXPENDITURES. ADB'S BALANCE OF UNENCASHED PESO NOTES AS OF 31 JUNE 1976 AMOUNTS TO ABOUT \$9.7 MILLION EQUIVALENT OR AT CURRENT LIMITED OFFICIAL USE

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PAGE 04 MANILA 13589 070404Z

DRAWDOWN RATE, EQUAL TO ABOUT 8 YEARS. END FYI. ONE POSSIBLE US POSITION COULD BE TO PROPOSE INCREASE IN DRAWDOWN RATE AFTER SECOND CAPITAL INCREASE OF 135 PERCENT IS APPROVED, BUT PHILIPPINE GOVERNMENT MIGHT CONSIDER SUCH ACTION AS ALTERNATIVE TO ACTION ON ITS PART TO CONSIDER HOUSING SCHEMES.
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